

**HILL COUNTRY DAILY
BREAD MINISTRIES**

FINANCIAL STATEMENTS

December 31, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hill Country Daily Bread Ministries
Boerne, Texas

Opinion

We have audited the accompanying financial statements of Hill Country Daily Bread Ministries (a non-profit corporation), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities (with comparative totals for 2020), functional expenses (with comparative totals for 2020), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hill Country Daily Bread Ministries as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hill Country Daily Bread Ministries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hill Country Daily Bread Ministries' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hill Country Daily Bread Ministries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hill Country Daily Bread Ministries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit

Randy Walker & Co.

San Antonio, Texas
September 1, 2022

HILL COUNTRY DAILY BREAD MINISTRIES
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,377,172	\$ 3,813,353
Accounts Receivable	618	225
Inventory	1,209,270	1,010,127
Total Current Assets	<u>5,587,060</u>	<u>4,823,705</u>
LONG-TERM ASSETS		
Other Assets	13,211	13,211
Property and Equipment, net	4,770,840	4,930,549
Total Long-Term Assets	<u>4,784,051</u>	<u>4,943,760</u>
TOTAL ASSETS	\$ <u>10,371,111</u>	\$ <u>9,767,465</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 100,327	\$ 71,819
Line of Credit	-	293,085
Total Current Liabilities	<u>100,327</u>	<u>364,904</u>
TOTAL LIABILITIES	<u>100,327</u>	<u>364,904</u>
NET ASSETS		
Without Donor Restrictions	8,466,821	8,044,281
With Donor Restrictions	1,803,963	1,358,280
TOTAL NET ASSETS	<u>10,270,784</u>	<u>9,402,561</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>10,371,111</u>	\$ <u>9,767,465</u>

The accompanying notes are an integral part of these financial statements.

HILL COUNTRY DAILY BREAD MINISTRIES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021
(with comparative totals for 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<u>OPERATING REVENUE AND SUPPORT</u>				
Non-Cash Donations: Food, Clothing, Household	\$ 5,996,111	\$ -	\$ 5,996,111	\$ 6,109,673
General Contributions	1,592,127	41,750	1,633,877	2,207,285
Capital Campaign Contributions	-	509,285	509,285	315,000
Grants	322,839	45,000	367,839	768,329
Fundraising (net of direct expenses of \$125,228 and \$138,324, respectively)	305,113	-	305,113	288,410
Other Income	17,543	-	17,543	662
Net Assets Released from Restrictions	150,352	(150,352)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	8,384,085	445,683	8,829,768	9,689,359
<u>OPERATING EXPENSES</u>				
Program	7,351,904	-	7,351,904	7,161,326
General and Administrative	413,535	-	413,535	409,159
Fundraising	196,106	-	196,106	175,421
TOTAL OPERATING EXPENSES	7,961,545	-	7,961,545	7,745,906
CHANGE IN NET ASSETS BEFORE NON- OPERATING ACTIVITY	422,540	445,683	868,223	1,943,453
<u>NON-OPERATING ACTIVITY</u>				
PPP Revenue	-	-	-	266,708
TOTAL NON-OPERATING ACTIVITY	-	-	-	266,708
CHANGE IN NET ASSETS AFTER NON- OPERATING ACTIVITY	422,540	445,683	868,223	2,210,161
NET ASSETS, Beginning of Year	8,044,281	1,358,280	9,402,561	7,192,400
NET ASSETS, End of Year	\$ 8,466,821	\$ 1,803,963	\$ 10,270,784	\$ 9,402,561

The accompanying notes are an integral part of these financial statements.

HILL COUNTRY DAILY BREAD MINISTRIES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021
(with comparative totals for 2020)

	2021			2020 Total	
	Program	General and Administrative	Fundraising		Total
OPERATING EXPENSES					
Salaries and Wages	\$ 909,332	\$ 326,926	\$ 165,772	\$ 1,402,030	\$ 1,202,159
Payroll Taxes	79,003	2,190	12,074	93,267	83,326
Total Payroll Expenses	988,335	329,116	177,846	1,495,297	1,285,485
Non-Cash Disbursements	5,797,190	-	-	5,797,190	5,808,192
Depreciation	136,260	23,449	-	159,709	168,162
Food and Products	136,479	-	-	136,479	134,981
Insurance	45,513	5,680	3,440	54,633	38,706
Capital Campaign	40,095	-	-	40,095	13,098
Utilities	25,105	3,339	1,891	30,335	40,362
Supplies	20,131	197	7,410	27,738	20,514
Vehicle Expenses	27,191	-	-	27,191	10,489
Computer Services	27,114	-	-	27,114	18,597
Academy	24,877	-	-	24,877	17,574
Maintenance and Repair	21,329	-	-	21,329	35,598
Camp	21,135	-	-	21,135	-
Professional Services	-	16,550	-	16,550	25,276
Bank Charges	1,371	12,998	-	14,369	18,638
Equipment	11,082	2,506	-	13,588	12,287
Printing and Reproduction	7,567	1,393	927	9,887	16,906
Telephone	6,270	1,593	1,063	8,926	8,026
Training	1,158	6,547	-	7,705	19,535
Postage	3,095	1,305	869	5,269	5,965
Dues and Subscriptions	5,104	100	-	5,204	3,019
Public Relations	420	4,167	-	4,587	4,852
Interest	-	4,274	-	4,274	21,080
Miscellaneous	2,493	321	72	2,886	2,529
Contract Labor	-	-	2,588	2,588	8,146
Appreciation	2,496	-	-	2,496	2,505
Kingdom Kids Club Bibles and Books	50	-	-	50	5,206
Security	44	-	-	44	178
TOTAL OPERATING EXPENSES	\$ 7,351,904	\$ 413,535	\$ 196,106	\$ 7,961,545	\$ 7,745,906

The accompanying notes are an integral part of these financial statements.

HILL COUNTRY DAILY BREAD MINISTRIES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 868,223	\$ 2,210,161
Adjustments to Reconcile Net Change to Net Cash Provided by Operations:		
Depreciation	159,709	168,162
Non-Cash Inventory Donations (Net of Non-Cash Inventory Disbursements)	(199,143)	(301,107)
(Increase) Decrease in Assets:		
Accounts Receivable	(393)	-
Prepaid Expenses	-	86,813
Increase (Decrease) in Liabilities:		
Accounts Payable	28,508	(34,290)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>856,904</u>	<u>2,129,739</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash Purchases of Property and Equipment	-	(4,129)
NET CASH USED BY INVESTING ACTIVITIES	<u>-</u>	<u>(4,129)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal Payments on Line of Credit	(293,085)	(225,000)
NET CASH USED BY FINANCING ACTIVITIES	<u>(293,085)</u>	<u>(225,000)</u>
NET INCREASE IN CASH FLOWS	563,819	1,900,610
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>3,813,353</u>	<u>1,912,743</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 4,377,172</u>	<u>\$ 3,813,353</u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
Interest Paid	\$ 4,274	\$ 21,080

The accompanying notes are an integral part of these financial statements.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting

The accompanying statements of Hill Country Daily Bread Ministries (the Organization) have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Nature of Activities

Hill Country Daily Bread Ministries is organized as a 501(c)(3) non-profit corporation. Since October 2000, the Organization has served as a unique and effective ministry resource to the Hill Country Christian outreach programs. The mission of the Organization is to gather, store, and distribute food, clothing, furniture, diapers, school supplies and children's books free of charge to the needy through partner church programs. The Organization currently serves over 39 outreach programs, which are mainly associated with local churches.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets:

- *Net Assets Without Donor Restrictions* – Net assets available for use in the general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, designated.
- *Net Assets With Donor Restrictions* – Net assets subject to donor restrictions that are more restrictive than the Organization's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid savings and securities with a maturity of three months or less to be cash equivalents.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)

Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and as such qualifies for the maximum charitable contributions deduction by donors. As of December 31, 2021, the tax years that remain subject to examination by taxing authorities begin with 2018.

Contributions and Grants

The Organization records contributions and grants in accordance with Accounting Standards Update (ASU) 20-18-08, *Nor-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Contributions and grants received are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is fulfilled), net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

Inventory

Inventory consists primarily of donated food, clothing, and household items. Therefore, these items are stated at fair value at date of donation. At December 31, 2021 and 2020, the value of inventory was \$1,209,270 and \$1,010,127, respectively.

Property and Equipment

Property and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The Organization capitalizes items with a cost of over \$2,000. Depreciation on the assets owned by the Organization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building	40 years
Equipment	5-7 years
Software	5 years
Vehicles	5 years

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2021. A lessee will be required to recognize on the statements of financial position the assets and liabilities for leases with lease terms of more than twelve months. Management is currently evaluating the effect this new standard will have on its financial position, results of operations and related disclosures.

Recently Adopted Accounting Pronouncements

In 2018, the FASB issued ASU 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, effective for periods beginning after December 15, 2019. This pronouncement improves the effectiveness of fair value measurement disclosures in the notes to the financial statements. The Organization adopted this pronouncement effective January 1, 2020.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This pronouncement provides guidance regarding revenue recognition effective for reporting periods beginning after December 15, 2019. The pronouncement affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets. The core principle of this update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The Organization adopted this pronouncement effective January 1, 2020.

Revenue - Exchange Transactions

The Organization records revenue from exchange transactions relating to fundraising events as fundraising income. Any amounts received in excess of the benefit provided to attendees is recorded as a contribution. The amount of consideration received from these transactions is variable. Revenue from these transactions is recorded as an increase in net assets without donor restrictions to the extent that the earnings process is complete. Performance obligations are satisfied at a point in time when the event is held. There were no receivables, contract assets, or contract liabilities related to these exchange transactions at December 31, 2021 and 2020.

NOTE 2 – CONCENTRATION OF CREDIT RISK

The Organization maintains all of its cash accounts at one financial institution. The Federal Deposit Insurance Corporation insures cash balances up to \$250,000 per bank. The Organization had uninsured cash balances of \$3,958,751 and \$3,306,766, not including reconciling items, at December 31, 2021 and 2020, respectively.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and general and administrative expenses have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include payroll expenses which are allocated on the basis of estimates of time and effort, as well as utilities, depreciation, insurance, and various other expenses which are allocated on the basis of square footage or some other reasonable basis.

NOTE 4 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at December 31:

	<u>2021</u>	<u>2020</u>
Capital Campaign	\$ 1,748,521	\$ 1,302,838
Kingdom Kids	<u>55,442</u>	<u>55,442</u>
Total	<u>\$ 1,803,963</u>	<u>\$ 1,358,280</u>

NOTE 5 – LEASES

The Organization has a lease agreement for office equipment that expires in October 2023. Rental charges under this lease were \$345 per month. Lease expense for the years ended December 31, 2021 and 2020 was \$4,140 and \$4,265, respectively.

Future annual lease payments under the existing lease agreement are as follows:

<u>Year Ending December 31,</u>		
2022	\$	4,140
2023		<u>3,450</u>
Total	\$	<u>7,590</u>

NOTE 6 – DONATED MATERIALS AND SERVICES

The Organization received \$5,996,111 and \$6,109,673 in food, clothing, and household items from various donors during the years ended December 31, 2021 and 2020, respectively. These donated items are included in non-cash donations in the statement of activities. The Organization disbursed \$5,797,190 and \$5,808,192 in donated food, clothing, and household items to various ministries during the years ended December 31, 2021 and 2020, respectively. These disbursements are included in non-cash disbursements in the statement of functional expenses. In addition, a number of volunteers donated approximately 30,563 and 28,616 hours to the Organization's program services during the years ended December 31, 2021 and 2020, respectively; however, these donated services are not reflected in the financial statements since they do not meet the criteria for recognition as contributed services according to generally accepted accounting principles.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 7 – PROPERTY AND EQUIPMENT

At December 31, the cost and accumulated depreciation of property and equipment were as follows:

	2021	2020
Land	\$ 614,906	\$ 614,906
Building	4,492,946	4,492,946
Equipment	236,778	236,778
Vehicles	164,968	164,968
Software	3,250	3,250
Construction In Progress	302,703	302,703
Less: Accumulated Depreciation	(1,044,711)	(885,002)
Total	\$ 4,770,840	\$ 4,930,549

Depreciation expense was \$159,709 and \$168,162 for the years ended December 31, 2021 and 2020, respectively.

NOTE 8 – LINE OF CREDIT

The Organization had a revolving line of credit agreement with a local institution for a maximum amount of \$4,400,000 for construction costs related to the new facility. The line of credit was collateralized by cash and future cash receipts, had a fixed rate of 3.5%, and matured on July 14, 2021. It was not renewed. The outstanding balance for the line of credit as of December 31, 2021 and 2020 was \$-0- and \$293,085, respectively.

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization adopted the provisions of ASC 820, “Fair Value Measurements and Disclosures” (formerly SFAS 157). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, and establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The adoption of ASC 820 did not affect the Organization’s financial position or results of operations.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority.
- Level 2 valuations are based on quoted prices in markets that are not active.
- Level 3 valuations are based on inputs that are unobservable and supported by little or no market activity.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Organization’s current assets and liabilities as presented in the statements of financial position are Level 1. The Organization has no Level 2 or Level 3 assets or liabilities. The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

NOTE 10 – PAYCHECK PROTECTION PROGRAM

During the year ended December 31, 2020, the Organization received a Paycheck Protection Program (PPP) loan of \$266,708 from the Small Business Administration as part of the CARES Act passed during the year to assist small businesses and non-profits affected by measures instituted in response to the COVID-19 pandemic. The amount was expended according to the time and purpose restrictions defined by the PPP as of December 31, 2020. The Organization applied for forgiveness of the PPP loan in October 2020 and was approved in November 2020. Therefore, the loan was recognized as revenue in the statement of activities for the year ended December 31, 2020. The Organization did not apply for the second round of PPP funding.

NOTE 11 – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The following reflects the Organization’s financial assets as of the statement of financial position date, reduced by amounts not available for general use because of donor-stipulated restrictions.

	2021	2020
Cash and Cash Equivalents	\$ 4,377,172	\$ 3,813,353
Accounts Receivable	618	225
Total Financial Assets	4,377,790	3,813,578
Donor Restrictions	(1,803,963)	(1,358,280)
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	\$ 2,573,827	\$ 2,455,298

The Organization’s primary sources of cash flows during the year are contributions, grants and fundraising. These revenue sources provide a consistent inflow of cash throughout the year to meet normal operating expenses.

NOTE 12 – FUNDRAISING EVENTS

The Organization holds a fundraising event each year. As discussed in Note 1, fundraising events are considered exchange transactions. For the years ended December 31, 2021 and 2020, the exchange portion of the fundraising event income was \$114,482 and \$137,132, respectively. The amount in excess of this exchange portion is considered contribution income.

HILL COUNTRY DAILY BREAD MINISTRIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 13 – SUBSEQUENT EVENTS

Due to the ongoing COVID-19 pandemic, the Organization continues to evaluate current economic conditions and the impact on the Organization's operations for the year ending December 31, 2022, as the long-term effects of the pandemic are uncertain.

The Organization has evaluated subsequent events through September 1, 2022, the date the financial statements were available to be issued.